

Missoula Plan

Supporting Comparability:

The Federal Benchmark Mechanism

February 20, 2007

Intercarrier Compensation Reform Is Necessary

- **The Missoula Plan is a reasonable reform plan and an essential transition to a broadband environment**
- **The shift to a broadband environment undermines a fundamental source of revenues used to support the underlying costs of the current network**
 - Access revenues will not be available in an IP and broadband environment
 - Without access revenues, companies will need another revenue source to cover costs
 - If companies do not have an alternative revenue source they will be unable to pay the debt on existing infrastructure and will not be able deploy the next generation infrastructure
- **The Missoula Plan provides states with solutions before a crisis develops**
- **The Plan begins to size the level of explicit federal funding necessary in a broadband environment**
- **The Federal Benchmark Mechanism is a significant enhancement to the Plan and provides states with an additional tool to address these issues**

Early Adopter States Encouraged Missoula Plan Enhancements

- **Several states expressed concerns during the development of the Missoula Plan**
 - The Plan disadvantages *early adopter* states, i.e., those states that had taken action to substantially reduce intrastate access charges
 - The \$200M allocated to address early adopter issues was not adequate
 - The Plan could impact universal service in states with already high rates and rural populations
 - The Plan's reforms did not produce comparability for customers across all states
- **A group of interested state commissioners and Missoula Plan supporters collaborated over the last six months to develop the Federal Benchmark Mechanism**
- **The Federal Benchmark Mechanism addresses various issues states would otherwise face under the Missoula plan – recognizing that states approached access reform in different ways**
 - Promotes equity for early adopter states
 - Relies upon national “rate benchmarks” to establish comparability among states
 - Targets new federal support to states that have the highest end user rates
- **Ex parte filed January 30, 2007 in Docket No. 01-92**

Federal Benchmark Mechanism: Category A Funding

**Category A Funding replaces Residential SLC Increase
because Residential Revenues per Line > High Benchmark
Target (\$25)**

Residential Revenues per Line

** Includes Mandatory EAS

Federal Benchmark Mechanism: Category A Funding

Category A Funding replaces the portion of the Residential SLC Increase that causes Residential Revenues per Line > High Benchmark Target (\$25)

Residential Revenues per Line

** Includes Mandatory EAS

Federal Benchmark Mechanism: Category B Funding

**Category A Funding replaces Residential SLC Increase because
Residential Revenues per Line > High Benchmark Target (\$25)**

- ✓ **Category B Funding provided because
Residential Revenues per Line > High
Benchmark Target (\$25)**

- ✓ **Category B Funding used to reduce
eligible state USF line item and then
interstate residential SLC**

Residential Revenues per Line

** Includes Mandatory EAS

Federal Benchmark Mechanism: Category C Funding

- **Category C Funding addresses states that have a moderate Residential Revenues per Line and eligible state USF ***
- **Category C Funding will fill in where Category A Funding and Category B Funding do not fully address early adopter and comparability concerns**
- **The maximum level of Category C Funding per state is \$10M**
 - If the eligible state USF is greater than \$10M and Category B Funding is less than \$10M, then Category C Funding is the difference between \$10M and Category B Funding
 - If the eligible state USF is less than \$10M and Category B Funding is less than the eligible state USF, then Category C Funding is the difference between the eligible state USF and Category B Funding
 - There is no Category C Funding when Category B Funding is greater than \$10M or the eligible state USF is less than Category B Funding

* It does not matter whether the eligible state funding is financed through bulk billing charges on IXCs or direct charges to consumers. Moreover, it is not relevant whether the eligible state USF resulted from access charge reductions or elimination of pooling.

Federal Benchmark Mechanism: Low Rate Adjustment

- When the sum of the Residential Revenues per Line and the Residential SLC Increase is less than the Low Benchmark Target (\$20) and the carrier receives Restructure Mechanism, then the Low Rate Adjustment applies
- The Low Rate Adjustment requires a carrier to impute up to an additional \$2 of interstate residential SLC increase before the Restructure Mechanism is calculated
- The Low Rate Adjustment was designed to improve rate comparability among states

- Category A Funding.....\$579M
 - Category B Funding.....\$141M
 - Category C Funding.....\$111M
 - Low Rate Adjustment.....(\$25M)
 - Net.....\$806M*
- * The net impact is \$606M more than the \$200M reflected in the original Missoula Plan filing, the \$606M accounts for approximately \$0.08 of the \$0.38 per connection charge contribution estimate

State Estimates of Net Benefit to Residential Customers

State Code	Total Residential Lines	Dollar Impacts (\$ 000)					Impact per Line per Month (\$)**		
		RM	Federal Benchmark Mechanism	Lifeline	HCLF	Total Impact	Total Impact on Residential Customers	Incremental Assessment (All Customers)	Net Benefit to Residential Customers
AK*	279,435	\$ 25,031	\$ 2,194	\$ 678	\$ 6,744	\$ 34,648	\$ 10.33	\$ 0.38	\$ 9.95
AL*	1,486,246	\$ 15,908	\$ (1,626)	\$ 538	\$ 6,234	\$ 21,054	\$ 1.18	\$ 0.38	\$ 0.80
AR	925,035	\$ 31,745	\$ 19,082	\$ 1,122	\$ 13,302	\$ 65,251	\$ 5.88	\$ 0.38	\$ 5.50
AZ	4,688,184	\$ 58,243	\$ 885	\$ 2,052	\$ 6,325	\$ 67,505	\$ 1.20	\$ 0.38	\$ 0.82
CA*	8,883,861	\$ 59,947	\$ 99,950	\$ 72,023	\$ 7,424	\$ 239,345	\$ 2.25	\$ 0.38	\$ 1.87
CO*	1,703,207	\$ 7,382	\$ 40,701	\$ 1,067	\$ 4,373	\$ 53,523	\$ 2.62	\$ 0.38	\$ 2.24
CT	1,395,254	\$ -	\$ -	\$ 1,335	\$ -	\$ 1,335	\$ 0.08	\$ 0.38	\$ (0.30)
DC	219,561	\$ -	\$ -	\$ 210	\$ -	\$ 210	\$ 0.08	\$ 0.38	\$ (0.30)
DE	453,424	\$ -	\$ -	\$ 64	\$ -	\$ 64	\$ 0.01	\$ 0.38	\$ (0.37)
FL*	6,665,680	\$ 80,208	\$ (2,257)	\$ 5,217	\$ 3,085	\$ 86,254	\$ 1.08	\$ 0.38	\$ 0.70
GA*	2,712,592	\$ 46,355	\$ 13,962	\$ 1,474	\$ 16,259	\$ 78,051	\$ 2.40	\$ 0.38	\$ 2.02
HI*	462,256	\$ 11	\$ 8,130	\$ 277	\$ 49	\$ 8,467	\$ 1.53	\$ 0.38	\$ 1.15
IA*	1,080,161	\$ 52,826	\$ 3,693	\$ 2,052	\$ 5,986	\$ 64,557	\$ 4.98	\$ 0.38	\$ 4.60
ID	588,271	\$ 15,046	\$ 12,888	\$ 1,205	\$ 5,682	\$ 34,821	\$ 4.93	\$ 0.38	\$ 4.55
IL	3,806,454	\$ 7,147	\$ 14,473	\$ 1,979	\$ 4,580	\$ 28,179	\$ 0.62	\$ 0.38	\$ 0.24

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IN*	2,171,597	\$ 7,023	\$ 10,330	\$ 1,051	\$ 4,376	\$ 22,780	\$ 0.87	\$ 0.38	\$ 0.49
KS*	774,457	\$ 15,542	\$ 24,888	\$ 744	\$ 7,505	\$ 48,680	\$ 5.24	\$ 0.38	\$ 4.86
KY*	1,303,361	\$ 30,523	\$ 5,387	\$ 1,518	\$ 7,295	\$ 44,723	\$ 2.86	\$ 0.38	\$ 2.48
LA*	1,367,693	\$ 1,402	\$ -	\$ 463	\$ 5,864	\$ 7,729	\$ 0.47	\$ 0.38	\$ 0.09
MA*	2,043,045	\$ 221	\$ 46,774	\$ 1,846	\$ 12	\$ 48,853	\$ 1.99	\$ 0.38	\$ 1.61
MD	1,947,868	\$ 1,140	\$ -	\$ 141	\$ 205	\$ 1,487	\$ 0.06	\$ 0.38	\$ (0.32)
ME*	574,207	\$ 1,323	\$ 18,186	\$ 1,611	\$ 3,233	\$ 24,354	\$ 3.53	\$ 0.38	\$ 3.15
MI	2,798,341	\$ 11,545	\$ 24,738	\$ 2,188	\$ 5,803	\$ 44,274	\$ 1.32	\$ 0.38	\$ 0.94
MN	1,768,103	\$ 56,298	\$ 2,266	\$ 1,779	\$ 9,064	\$ 69,407	\$ 3.27	\$ 0.38	\$ 2.89
MO*	2,061,325	\$ 97,794	\$ (3,254)	\$ 2,401	\$ 7,596	\$ 104,537	\$ 4.23	\$ 0.38	\$ 3.85
MS*	791,972	\$ 25,024	\$ 2,018	\$ 546	\$ 3,004	\$ 30,592	\$ 3.22	\$ 0.38	\$ 2.84
MT*	468,483	\$ 25,349	\$ 11,963	\$ 529	\$ 5,174	\$ 43,015	\$ 7.65	\$ 0.38	\$ 7.27
NC*	3,019,363	\$ 78,923	\$ 2,973	\$ 3,377	\$ 4,507	\$ 89,780	\$ 2.48	\$ 0.38	\$ 2.10
ND*	208,111	\$ 17,499	\$ 4,914	\$ 671	\$ 3,948	\$ 27,032	\$ 10.82	\$ 0.38	\$ 10.44
NE*	408,622	\$ 10,569	\$ 39,448	\$ 825	\$ 3,824	\$ 54,666	\$ 11.15	\$ 0.38	\$ 10.77
NH	583,921	\$ 2,410	\$ (301)	\$ 267	\$ 497	\$ 2,873	\$ 0.41	\$ 0.38	\$ 0.03
NJ	3,051,755	\$ 12,655	\$ (3,678)	\$ 5,130	\$ -	\$ 14,107	\$ 0.39	\$ 0.38	\$ 0.01
NM	681,643	\$ 11,227	\$ 17,590	\$ 2,139	\$ 1,711	\$ 32,667	\$ 3.99	\$ 0.38	\$ 3.61
NV	1,278,568	\$ 11,132	\$ 246	\$ 939	\$ 1,235	\$ 13,552	\$ 0.88	\$ 0.38	\$ 0.50
NY*	5,324,595	\$ 36,345	\$ 169,906	\$ 16,941	\$ 11,576	\$ 234,768	\$ 3.67	\$ 0.38	\$ 3.29

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OH*	3,693,400	\$ 39,153	\$ 2,399	\$ 6,663	\$ 2,504	\$ 50,719	\$ 1.14	\$ 0.38	\$ 0.76
OK*	1,128,398	\$ 20,915	\$ 10,974	\$ 3,365	\$ 7,479	\$ 42,734	\$ 3.16	\$ 0.38	\$ 2.78
OR*	1,348,395	\$ 6,221	\$ 42,303	\$ 1,751	\$ 4,929	\$ 55,203	\$ 3.41	\$ 0.38	\$ 3.03
PA*	4,513,782	\$ 35,299	\$ 19,304	\$ 2,690	\$ 1,250	\$ 58,543	\$ 1.08	\$ 0.38	\$ 0.70
PR	908,636	\$ -	\$ -	\$ 3,933	\$ -	\$ 3,933	\$ 0.36	\$ 0.38	\$ (0.02)
RI	286,876	\$ -	\$ -	\$ 764	\$ -	\$ 764	\$ 0.22	\$ 0.38	\$ (0.16)
SC*	1,404,544	\$ 10,037	\$ 16,324	\$ 423	\$ 7,556	\$ 34,340	\$ 2.04	\$ 0.38	\$ 1.66
SD*	233,555	\$ 38,075	\$ 2,220	\$ 851	\$ 4,112	\$ 45,258	\$ 16.15	\$ 0.38	\$ 15.77
TN*	2,668,750	\$ 40,569	\$ (5,133)	\$ 1,072	\$ 8,960	\$ 45,468	\$ 1.42	\$ 0.38	\$ 1.04
TX	6,652,004	\$ 35,781	\$ 13,173	\$ 24,458	\$ 23,905	\$ 97,317	\$ 1.22	\$ 0.38	\$ 0.84
UT	663,567	\$ 11,786	\$ 6,408	\$ 827	\$ 1,739	\$ 20,760	\$ 2.61	\$ 0.38	\$ 2.23
VA	2,361,100	\$ 35,012	\$ 2,489	\$ 742	\$ 4,849	\$ 43,092	\$ 1.52	\$ 0.38	\$ 1.14
VT*	426,082	\$ 3,065	\$ 17,561	\$ 733	\$ 1,726	\$ 23,084	\$ 4.51	\$ 0.38	\$ 4.13
WA	2,338,364	\$ 47,755	\$ 25,544	\$ 5,059	\$ 7,821	\$ 86,178	\$ 3.07	\$ 0.38	\$ 2.69
WI*	1,772,366	\$ 48,552	\$ 14,994	\$ 1,480	\$ 11,003	\$ 76,029	\$ 3.57	\$ 0.38	\$ 3.19
WV	664,462	\$ 15,579	\$ 33,212	\$ 218	\$ 4,935	\$ 53,944	\$ 6.77	\$ 0.38	\$ 6.39
WY*	142,695	\$ 8,420	\$ 17,323	\$ 269	\$ 1,602	\$ 27,615	\$ 16.13	\$ 0.38	\$ 15.75
Total	99,183,629	\$ 1,250,016	\$ 805,564	\$ 191,700	\$ 260,840	\$ 2,508,120	\$ 2.11	\$ 0.38	\$ 1.73

State Estimates of Net Benefit to Residential Customers

* States shown with asterisks have submitted full or partial input data as of 1-22-2007.

** These results do not include incremental SLC or Toll reductions.

COLUMN EXPLANATION:

Dollar Impacts

RM - Restructure Mechanism" funds are paid to carriers to replace access and other intercarrier losses under the Missoula Plan

Federal Benchmark Mechanism - Paid to carriers and states under the Federal Benchmark Mechanism Amendments to the Missoula Plan

Lifeline - The incremental cost to the Lifeline program from changes proposed in the Missoula Plan

HCLF - The incremental change to the High Cost Loop Support program from changes proposed in the Missoula Plan

Total Impact - This is the sum of the preceding program totals

Impact Per Line per Month

Total Impact on Residential Customers - Total impact divided by residential lines (assumes all benefits flow to residential lines)

Incremental Assessment - estimate based on calculation on following tab. Includes all Missoula Plan and FBM impacts, and CLEC money.

Net Benefit to Residential Customers - Net of preceding two columns

Except for the development of the incremental assessment, impacts are ILEC only.

Results do not include data from American Samoa, Guam, Northern Mariana Islands, and Virgin Islands.